

City of Palm Coast, Florida Agenda Item

Agenda Date: April 11, 2023

Department	CONSTRUCTION MANAGEMENT & ENGINEERING	Amount
Division		Account
Subject	PRESENTATION - STORMWATER RATE STUDY	
Presenter: Carl Cote, Director of Stormwater & Engineering		
Background:		
<u>UPDATE FROM THE FEBRUARY 14, 2023, WORKSHOP</u>		
<p>This item was heard by City Council at their February 14, 2023, Workshop. City Council requested that staff prepare a cost-benefit analysis of bringing contract services in-house and evaluate the feasibility of a user rate option. Updates to this item will be presented during this meeting.</p>		
<u>ORIGINAL BACKGROUND FROM THE FEBRUARY 14, 2023, WORKSHOP</u>		
<p>In 2018 the City completed, and City Council adopted, a comprehensive rate study. This study was to evaluate the adequacy of stormwater rates necessary to pay for system operations, enhanced levels of maintenance, critical capital repairs and upgrades, and ongoing replacement of fleet and equipment. The rate study findings resulted in a recommended rate increase based on enhanced operations and a capital plan. The plan accelerated capital repairs and improvements, as well as maintenance activities for the citywide stormwater system.</p>		
<p>The adopted rate was phased in incrementally through FY24. Adopted rate increases included 8.2% for FY23 which was implemented on October 1, 2022, and an additional 7.5% scheduled for implementation in FY24. An annual indexing provision was also adopted to increase rates beyond FY24 based on the change in the consumer price index (CPI), but not less than 2% annually. Currently, the CPI has increased by 8.2% from October 2021 through September 2022.</p>		
<p>In May of 2022, Raftelis Financial Consultants, Inc., was contracted to perform a review of the Stormwater Enterprise Fund and provide a new rate study analysis to support the future needs and level of service of the Stormwater Utility.</p>		
Recommended Action: FOR PRESENTATION AND DIRECTION		

City of Palm Coast

Stormwater Rate Study

City Council Update: April 11, 2023



Introduction

- On February 14, 2023, City staff presented the Stormwater Biannual Update and the results of a recent utility rate study
 - › City staff provided an overview of the stormwater system goals, levels of service standards, and program highlights
 - › Raftelis discussed service level enhancements recommended by City staff and the estimated rates necessary to support the operations under three service level priorities
 - Priority 1: Fund Maintenance Needs
 - Priority 2: Add Strategic Capital Improvements
 - Priority 3: Add Enhanced Swale Maintenance and Staffing

Introduction (cont.)

- The service level priorities were developed based on community feedback and master planning criteria as established by the City
 - › Each service level priority considers a balanced approach to funding major capital improvements and ongoing renewal and replacements
- Each priority includes additional funding to bring current, contract services inhouse and new staffing that would support:
 - › A Freshwater Canal and Weir Maintenance Crew
 - › A Concrete and Asphalt Crew
- City Council requested that City staff prepare a cost benefit analysis of bringing the contract services inhouse

Introduction (cont.)

- Each priority also provided funding for right-of-way (ROW) mowing of vacant properties to ensure that swale systems are not obstructed and operate as designed
 - › This cost is currently being funded by the City's Public Works Department
 - › City staff propose to establish stormwater funding for a transfer to the Public Works Department for reimbursement of ROW mowing
- City Council requested that staff also evaluate the feasibility of a user rate option

Right-of-Way Mowing Analysis

- Currently there are 10,072 vacant residential lots
- Homeowner requirement to maintain right-of-way does not begin until property is developed and certificate of occupancy is issued
- Vacant residential lots of 1-acre or less are currently charged 0.74 ERU per the hydrological condition engineering study performed by Jones Edmunds and included in final report dated February 2011
- Maintaining of vacant residential lot swales was not part of previous stormwater rate studies but has been included as part of this rate study update as it is part of the stormwater maintenance program and are costs that should be included as part of the fee collected by vacant and developed properties

Right-of-Way Mowing Analysis

- City Council Direction:
 1. Maintain Current Program and Funding in Public Works
 2. Incorporate Costs as Part of Stormwater Rate Fee Update
 3. Remove from Rate Study Update and Pursue Following Options
 - › Assessment Option
 - › Adoption of Standard Requirements for ALL Lots Enforced Through Code Enforcement

Background

- The City completed a comprehensive rate study in 2018 to evaluate the adequacy of stormwater rates necessary to pay for system operations, enhanced levels of maintenance, critical capital repairs & upgrades, and ongoing replacement of fleet & equipment
- The City Council adopted the rate study recommendations based on an enhanced operating and capital plan that accelerated capital repairs and improvements and maintenance activities for the utility system while phasing in rates through FY24

Background (cont.)

- Adopted rate increases include 8.2% for FY23 that was implemented October 1, 2022 and an additional 7.5% for FY24
 - › An annual indexing provision was adopted to increase rates beyond FY24 based on the change in the consumer price index (CPI), but not less than 2% annually

Changing Conditions

- As the adopted stormwater rates were implemented through FY22, the factors affecting the original planning assumptions have changed
 - › Total (net) operating revenues for FY22 are estimated to be \$0.7 million under plan
 - Revenues based on the adopted FY22 rates are estimated to be \$1.2 million more than plan, while operating expenses and required transfers have exceeded plan by \$1.9 million
 - Also during the year, CPI increased approximately 8%
- Since the adopted rate plan was approved based on the City's plans to issue additional debt to fund capital projects, and to enhance the City's capital maintenance efforts, a portion of those proposed investments by the City are now left unfunded

Changing Conditions (cont.)

- To develop the FY23 operating budget, City staff accounted for additional increases in operating expenses due to anticipated inflation for the year, and added additional staff to achieve stormwater program goals and objectives
 - › The adopted FY23 operating budget is approximately \$0.7 million greater than FY22 or 10% more
- The City's General Fund currently supports the costs to maintain right-of-way (ROW) mowing
 - › City staff propose to establish stormwater funding for a transfer to the Public Works Department for ROW mowing of vacant properties
 - › Currently vacant properties exceed 10,000 parcels
 - › The annual average cost is approximately \$800,000 per year

Changing Conditions (cont.)

- City staff updated the program maintenance and capital improvements program to reflect increasing maintenance expenses, construction costs and equipment needs
 - › Annual rate funded maintenance expenses and capital improvements estimated to increase from approximately \$5.1 million in FY23 to an annual average need of \$8.0 million per year from FY24 through FY27
 - › An additional annual transfer of approximately \$2.5 million per year is planned to accrue funds for the proposed Maintenance Operations Center
 - The Maintenance Operations Center is currently under design / total funding from stormwater rates estimated at \$11.1 million by FY27

Changing Conditions (cont.)

- City staff have summarized the plan changes under 5 service level priorities
 - › Each priority is additive based on cumulative enhancements to the stormwater program
 - Priority 1: Fund Maintenance Needs
 - Priority 2: Add Strategic Capital Improvements
 - Priority 3: Add Inhouse Freshwater Canal and Weir Maintenance Crew
 - Priority 4: Add Inhouse Concrete and Asphalt Crew
 - Priority 5: Add Enhanced Swale Maintenance and Staffing

Priority 1: Fund Maintenance Needs

- Funds \$55.9 million in program maintenance and capital projects
 - Includes \$2.8 million in loans for major vehicles & equipment
- Increases new personnel costs over time by \$2.2 million per year (FY27)
 - 2 ditch crews (1 new)
 - 1 freshwater canal dredging crew (new)
- Adds a new transfer for ROW mowing that averages \$0.8 million per year
- Adds \$2.5 million per year in funding for the Maintenance Operations Center; \$11.1 million by FY27

Priority 2: Add Strategic Capital Improvements

- No additional staffing needs above the positions included in Priority 1
- Funds an additional \$40.7 million in major capital improvement needs:
 - Little Canal & Seven Oaks Waterway Expansion
 - Lehigh Canal Capacity Improvement
 - Future (Unfunded) Expansion of London Waterway
 - Bellaire Waterway Pop Offs
 - Section K Drainage Improvements
 - Other Major Pipe Inspection & Lining and Drainage Improvements
 - Freshwater Canal Dredging & Weir Replacement - Pine Grove Waterway West
 - Colbert & Blare Castle Pipe Capacity Replacement
- Assumes new loans of \$38.1 million

Priority 3: Add In-house Freshwater Canal and Weir Maintenance Crew

- Currently contracted maintenance services
 - Weir sites are mowed 8 times per year (32 workdays)
- Enhanced benefits & increased level of service provided by dedicated inhouse crews
 - 1) Staff will be available 246 workdays per year for infrastructure improvements
 - 2) Weir sites will be mowed and inspected 16 times per year
 - 3) New weir and pump station maintenance program will be performed 4 times per year
 - 4) New routine freshwater canal headwall maintenance and inspection program will be implemented
 - 5) Maintenance & installation of water quality monitoring stations (requirements of MS4 permit)
 - 6) Immediate staff response time for weir & canal operations during hurricanes & natural disasters
- Includes \$270,000 for major vehicles & equipment; assumes the City will finance approximately \$164,000 of the costs
- Increases new personnel costs over time by \$500,000 per year (FY27)

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Eliminates current contract services expenditures of approximately \$75,000 per year (FY27)

Priority 4: Add In-house Concrete and Asphalt Crew

- Currently contracted maintenance services
 - During FY20, FY21, and FY22 the City received (on average) 41 workdays per year of asphalt work and 83 workdays per year of concrete work from the City's contractor
 - The City waited on average 6.75 days for asphalt and 10.2 days for concrete work to be completed on each project
- Enhanced benefits & increased level of service provided by dedicated in-house crews
 - 1) Dedicated staff will be available 246 workdays per year, representing an increase of 122 workdays available for infrastructure improvements compared to current contract work received
 - 2) City staff estimate completing asphalt projects in 2 days or less & concrete projects in 3 days or less
 - 3) By utilizing in-house crews the City is able to complete asphalt and concrete projects 70% faster while also increasing the overall level of service (workdays) by a minimum of 200%
- Includes \$490,000 for major vehicles & equipment; assumes the City will finance approximately \$359,000 of the costs
- Increases new personnel costs over time by \$400,000 per year (FY27)

Priority 5: Add In-house Swale Maintenance / Staffing

- Includes all funding associated with Priorities 1 thru 4
- This priority doubles our currently available swale maintenance resources
- Adds an additional \$3.5 million in loans for new equipment when compared to Priorities 1 thru 4 or \$6.9 million in total
- Adds new personnel costs over time by an additional \$2.0 million per year (FY27) when compared to Priorities 1 thru 4 or \$5.1 million by FY27
 - 2 new swale crews (swale regrading and rehabilitation)
 - 1 new vac truck crew (driveway culvert cleaning)
 - 1 new water truck operation (to water newly installed sod after swale regrading)
 - 1 dirt screening crew (processing of swale dirt to be used for city projects)

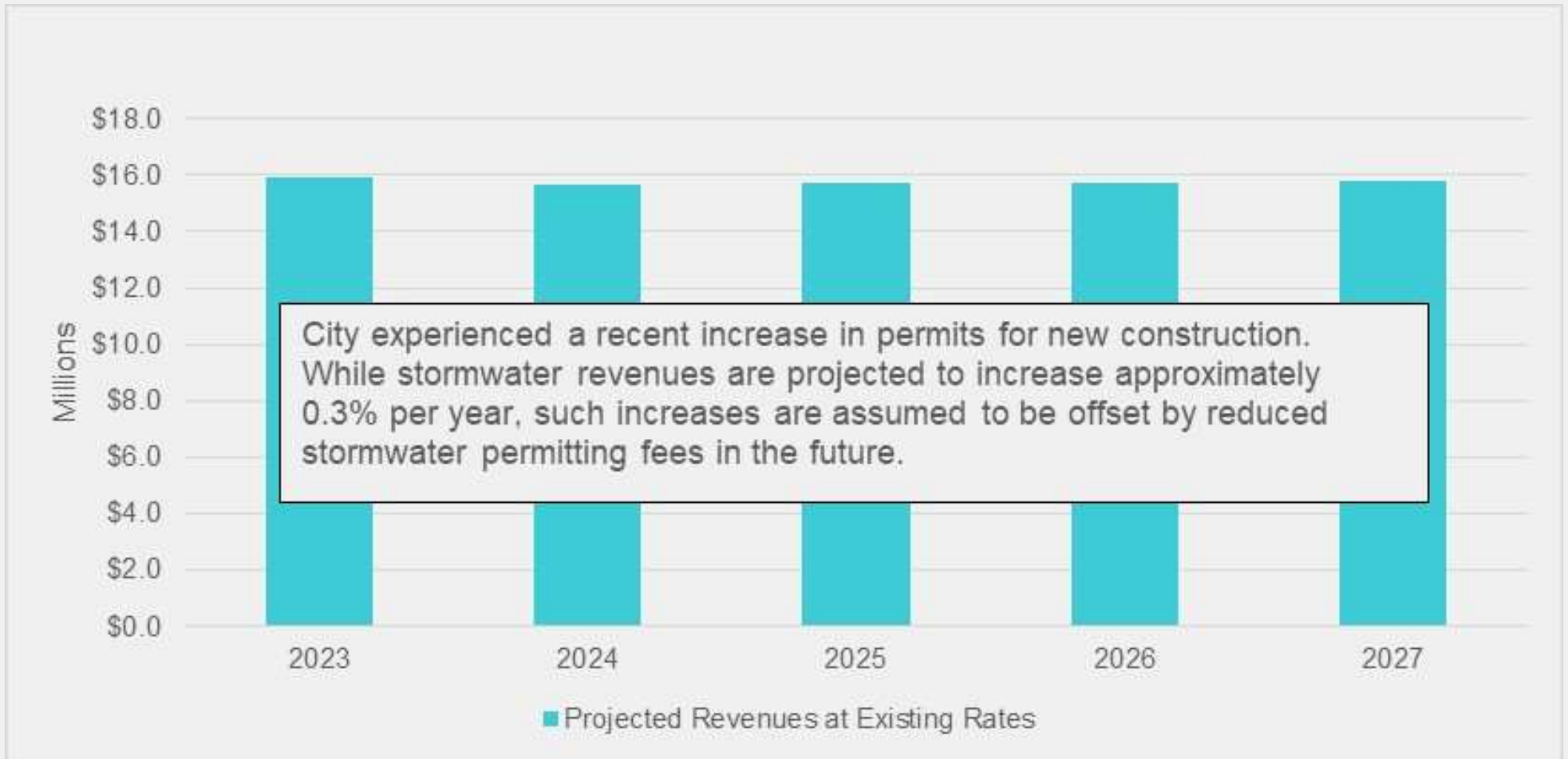
Study Objectives and Tasks

- The service level priorities were identified based on community feedback & master planning criteria as established by the City
- To evaluate the service level priorities, Raftelis updated the financial forecast for the next five years
 - › Primary study tasks:
 - Develop a financial forecast through FY27, including a projection of:
 - Revenues
 - Operations, regulatory and required transfers
 - Program maintenance and capital improvements
 - Existing and future debt service payments
 - Estimate the revenue requirements to be recovered from monthly service rates
 - Identify the need for rate adjustments during the study period based on selected priorities

Major Study Assumptions



Projected Revenues at Existing Rates



See Slide 23: Comparison of Total Annual Expenditures by Priority Level

Program Maintenance & Capital Costs (FY23-27)

Priority 1: Fund Maintenance Needs

\$55.9 million -

- Grants \$5.9 million
- Revenues & Reserves \$40.9 million
- Existing Series 2022 Southstate Note \$6.3 million
- Debt Proceeds \$2.8 million

Priority 2: Add Strategic Capital Improvements

\$96.5 million -

- Grants \$5.9 million
- Revenues & Reserves \$44.6 million
- Existing Series 2022 Southstate Note \$6.3 million
- Debt Proceeds \$39.7 million

Priority 3: Add Inhouse Freshwater Canal and Weir Maintenance Crew

\$96.8 million -

- Grants \$5.9 million
- Revenues & Reserves \$44.7 million
- Existing Series 2022 Southstate Note \$6.3 million
- Debt Proceeds \$39.9 million

Priority 4: Add Inhouse Concrete and Asphalt Crew

\$96.3 million -

- Grants \$5.9 million
- Revenues & Reserves \$43.9 million
- Existing Series 2022 Southstate Note \$6.3 million
- Debt Proceeds \$40.2 million

Priority 5: Add Enhanced Swale Maintenance / Staffing

\$102.9 million -

- Grants \$5.9 million
- Revenues & Reserves \$47.1 million
- Existing Series 2022 Southstate Note \$6.3 million
- Debt Proceeds \$43.6 million

When evaluating priorities 3 & 4, new personnel costs totaling approximately \$0.9 million per year (FY27) were added to operating expenses, while contract services were eliminated from the program maintenance and capital plan.

New equipment needs and fleet replacements were also added to the capital plan to support the new crews.

See Slide 23: Comparison of Total Annual Expenditures by Priority Level

Projected New Loan Assumptions

Priority 1: Fund Maintenance Needs

- Series 2023 (Major Equipment)
 - \$0.5 million principal
 - 10 years at 5.25%
 - \$60,000 payment (FY23)
- Series 2026 (Major Equipment)
 - \$2.4 million principal
 - 10 years at 6.00%
 - \$325,000 payment (FY26)

Annual Payments by FY27

\$0.4 million / yr.

Priority 2: Add Strategic Capital Improvements

- No change to Series 2023 and 2026
- Add Series 2025 (Construction Projects)
 - \$17.3 million principal
 - 20 years at 6.25%
 - \$1.5 million payment (FY25)
- Add Series 2027(Construction Projects)
 - \$20.8 million principal
 - 20 years at 6.75%
 - \$1.9 million payment (FY27)

Annual Payments by FY27

\$3.8 million / yr.

Priority 3: Add Inhouse Freshwater Canal and Weir Maintenance Crew

- No change to Series 2025, 2026 and 2027
- Revised Series 2023 (Major Equipment)
 - \$0.6 million principal
 - 10 years at 5.25%
 - \$85,000 payment (FY23)

Annual Payments by FY27

\$3.9 million / yr.

Priority 4: Add Inhouse Concrete and Asphalt Crew

- No change to Series 2025, 2026 and 2027
- Revised Series 2023 (Major Equipment)
 - \$1.0 million principal
 - 10 years at 5.25%
 - \$130,000 payment (FY23)

Annual Payments by FY27

\$3.9 million / yr.

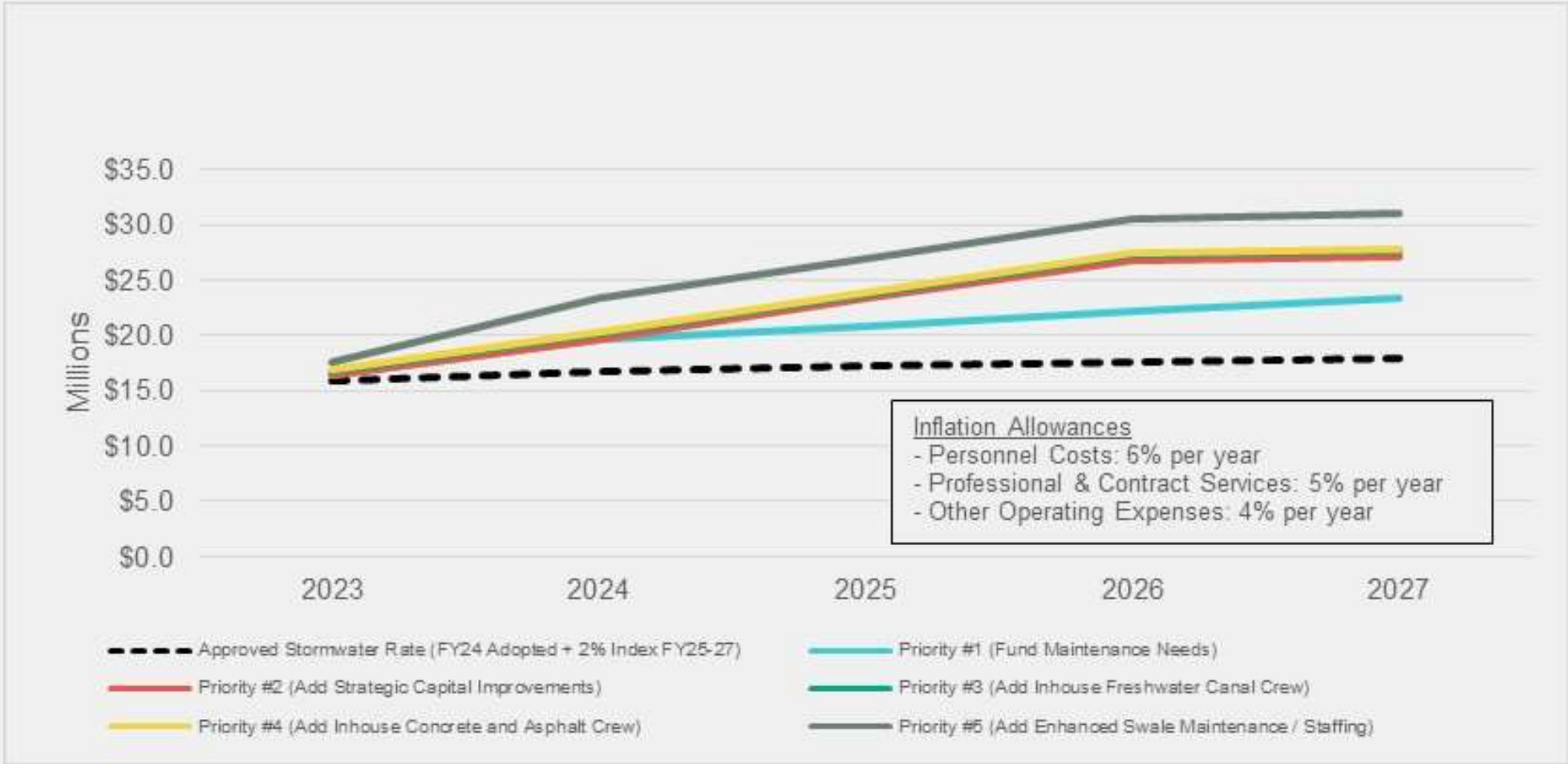
Priority 5: Add Enhanced Swale Maintenance / Staffing

- No change to Series 2025, 2026 and 2027
- Revised Series 2023 (Major Equipment)
 - \$4.5 million principal
 - 10 years at 5.25%
 - \$585,000 payment (FY23)

Annual Payments by FY27

\$4.5 million / yr.

Total Projected Expenditure Requirements



Other Study Considerations

- The proposed rates should meet the following criteria:
 - › Fully fund the operating and capital requirements over the study period
 - Includes right-of-way mowing currently funded from the General Fund
 - Provides for partial funding for the Maintenance Operations Center
 - › Maintain a minimum reserve fund equal to at least 20% of the annual operating expenses, required transfers and debt service payments to provide:
 - Adequate working capital to meet the operating needs of each system
 - A contingency to respond to natural disasters or other unforeseen events
 - › Comply with the minimum debt service coverage requirements
- A portion of the existing reserves above the 20% minimum requirement were used to fund program maintenance and capital costs while implementing the rate adjustments over the study period

Summary of Results

City Staff seek City Council Direction



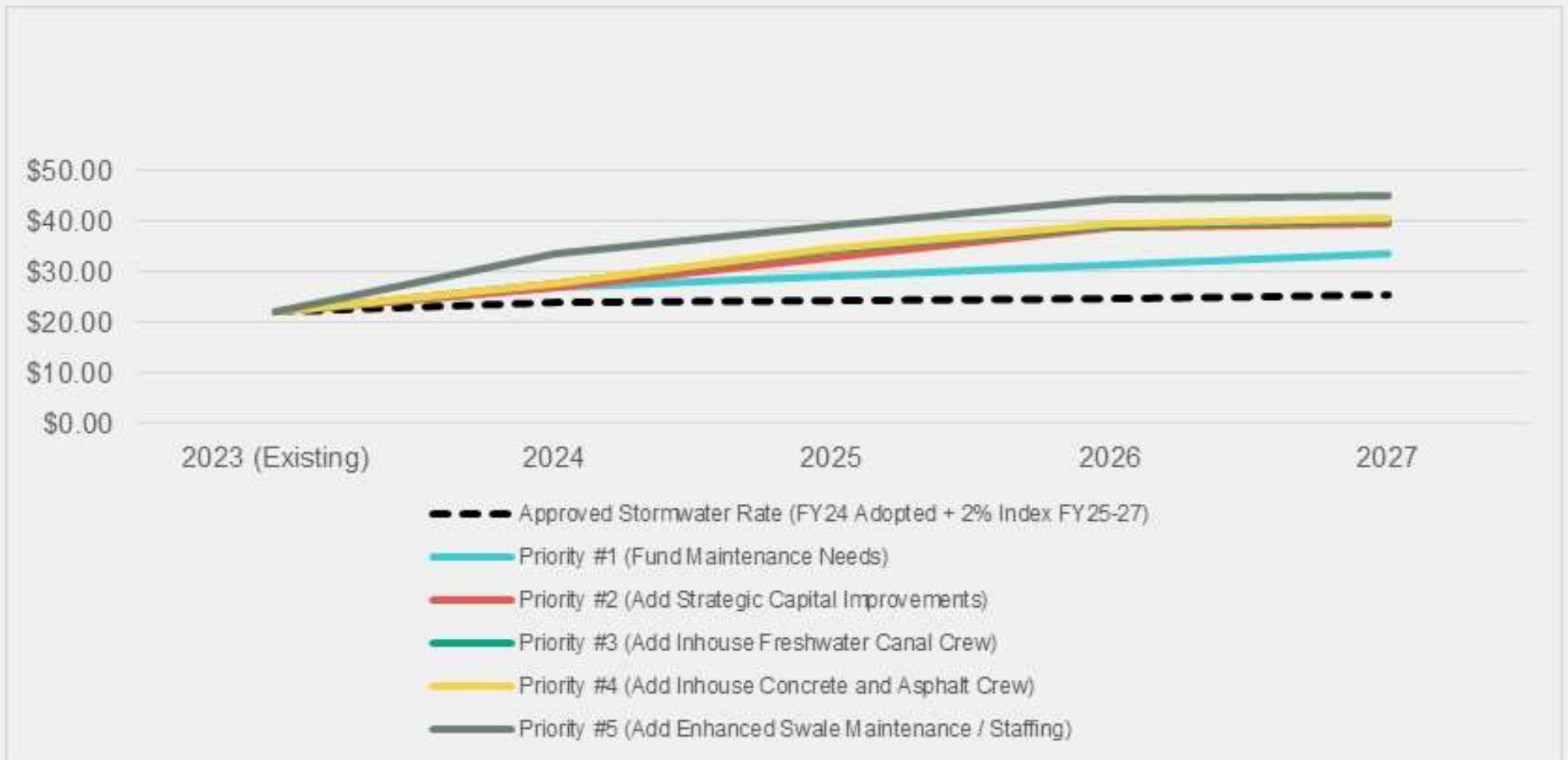
Comparison of Proposed Stormwater Rates

Description	Existing	FY24	FY25	FY26	FY27
Priority 1: Fund Maintenance Needs					
Percent Rate Increase		21.5%	8.0%	7.5%	7.5%
Increase in Monthly Charge per ERU		<u>\$4.80</u>	<u>\$2.16</u>	<u>\$2.20</u>	<u>\$2.35</u>
Existing/Proposed Residential Bill	\$22.27	\$27.07	\$29.23	\$31.43	\$33.78
Priority 2: Add Strategic Capital Improvements					
Percent Rate Increase		21.5%	21.5%	17.5%	2.5%
Increase in Monthly Charge per ERU		<u>\$4.80</u>	<u>\$5.82</u>	<u>\$5.75</u>	<u>\$0.97</u>
Existing/Proposed Residential Bill	\$22.27	\$27.07	\$32.89	\$38.64	\$39.61
Priority 3: Add Freshwater Canal and Weir Crew					
Percent Rate Increase		24.0%	24.0%	14.5%	3.0%
Increase in Monthly Charge per ERU		<u>\$5.36</u>	<u>\$6.63</u>	<u>\$4.96</u>	<u>\$1.18</u>
Existing/Proposed Residential Bill	\$22.27	\$27.63	\$34.26	\$39.22	\$40.40
Priority 4: Add Concrete and Asphalt Crew					
Percent Rate Increase		25.0%	25.0%	14.0%	2.5%
Increase in Monthly Charge per ERU		<u>\$5.58</u>	<u>\$6.96</u>	<u>\$4.87</u>	<u>\$1.00</u>
Existing/Proposed Residential Bill	\$22.27	\$27.85	\$34.81	\$39.68	\$40.68
Priority 5: Add Enhanced Swale Maintenance / Staffing					
Percent Rate Increase		51.0%	17.0%	12.5%	2.0%
Increase in Monthly Charge per ERU		<u>\$11.37</u>	<u>\$5.72</u>	<u>\$4.92</u>	<u>\$0.88</u>
Existing/Proposed Residential Bill	\$22.27	\$33.64	\$39.36	\$44.28	\$45.16

Summary of Proposed Stormwater Rates

Description	FY24	FY25	FY26	FY27
Priority 1: Fund Maintenance Needs				\$11.51
Proposed Residential Bill	\$27.07	\$29.23	\$31.43	\$33.78
Priority 2: Add Strategic Capital Improvements				\$5.83
Proposed Residential Bill	\$27.07	\$32.89	\$38.64	\$39.61
Priority 3: Add Freshwater Canal and Weir Crew				\$0.79
Proposed Residential Bill	\$27.63	\$34.26	\$39.22	\$40.40
Priority 4: Add Concrete and Asphalt Crew				\$0.28
Proposed Residential Bill	\$27.85	\$34.81	\$39.68	\$40.68
Priority 5: Add Enhanced Swale Maintenance / Staffing				\$4.48
Proposed Residential Bill	\$33.64	\$39.36	\$44.28	\$45.16

Comparison of Service Level Alternatives



Observations / Conclusions

- Based on community feedback and master planning criteria as established by the City, City staff developed 5 service level priorities to address program goals and objectives
- Each service level priority considers a balanced approach to funding major capital improvements and ongoing renewal and replacements using both debt and pay-go funding that will provide benefits over the useful life of the assets
- Key cost factors include:
 - › Recent inflation
 - › New staffing positions
 - › Vehicle & equipment needs
 - › Right-of-way mowing
 - › Funding the Maintenance Operations Center
 - › Major capital improvements

Observations / Conclusions (cont.)

- The City Council should consider adopting the proposed stormwater rates prepared under Priority 5, which would become effective on and after October 1, 2023, and each October 1st thereafter
- The Priority 5 Service Level adds certain strategic capital improvements and invests in new staffing and equipment as described in this presentation, which will enhance the stormwater program
 - › Retaining existing staff will help to continue to reduce the backlog of work orders
 - › Adding a second ditch crew allows the team to work in tandem with the swale crews to address immediate downstream ditch improvements at the same time
 - › Completing major capital improvements planned for the study period will extend the life of the system and ensure that the infrastructure is functioning properly
 - › Bringing the City's asphalt/concrete work inhouse provides the City more control, which will accelerate project response and completion time
 - › Adding two additional swale crews will double the swale maintenance efforts and increase the City's level of service

Observations / Conclusions (cont.)

- If approved, the proposed rates are designed to provide adequate cash flows over the study period to fully fund the projected revenue requirements of the system, while also maintaining adequate cash reserves in compliance with City policy
- The City should consider updating this study within 5 years, or at such time that actual results differ from the assumptions and estimates made during this analysis

City Council Direction: Stormwater Rate Update

Description	FY24	FY25	FY26	FY27
Priority 1: Fund Maintenance Needs				\$11.51
Proposed Residential Bill	\$27.07	\$29.23	\$31.43	\$33.78
Priority 2: Add Strategic Capital Improvements				\$5.83
Proposed Residential Bill	\$27.07	\$32.89	\$38.64	\$39.61
Priority 3: Add Freshwater Canal and Weir Crew				\$0.79
Proposed Residential Bill	\$27.63	\$34.26	\$39.22	\$40.40
Priority 4: Add Concrete and Asphalt Crew				\$0.28
Proposed Residential Bill	\$27.85	\$34.81	\$39.68	\$40.68
Priority 5: Add Enhanced Swale Maintenance / Staffing				\$4.48
Proposed Residential Bill	\$33.64	\$39.36	\$44.28	\$45.16